

WORKING CAPITAL FUND

FY 2003 First Half Report: Summary

I. Relation of Earnings to Expenses

- Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.
- The Fund operations, on the whole, broke even on \$43.6 M in earnings in the first half of FY 2003. Some business lines experienced net earnings as outlined below.

WORKING CAPITAL FUND			
FY 2003 First Half Business Results (in Millions)			
TABLE I			
<u>Business Line</u>	First Half Earnings	First Half Business Expenses	First Half Net
Supplies	\$1.2	\$1.2	\$0.0
Mail	\$1.2	\$1.2	\$0.0
Copying	\$1.1	\$1.3	-\$0.2
Printing/Graphics	\$1.3	\$1.3	\$0.0
Building Occupancy	\$29.4	\$29.5	-\$0.1
Telephones	\$3.3	\$3.4	-\$0.1
Desktop	\$0.6	\$0.6	\$0.0
Network	\$3.1	\$2.9	\$0.2
Contract Closeout	\$0.4	\$0.4	\$0.0
Payroll Processing	\$0.6	\$0.6	\$0.0
CHRIS	\$1.1	\$1.0	\$0.1
On-Line Learn. Ctr.	\$0.3	\$0.2	\$0.1
TOTAL ¹	\$43.6	\$43.6	\$0.0

- Specific differences in excess of \$50,000 are as follows:
 - The Copy Business Line reported negative net earnings of \$259,013 at the FY 2003 mid-year point resulting from a decline in customer usage of staffed copy centers

¹ When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

without a corresponding decrease in the Copy Business Line costs. The Business Line manager is actively pursuing measures to reduce its staffed copy center costs. The business is initiating, with Board approval, a new document imaging capability in conjunction with the staffed copy center, and revenues from this new product line may help offset labor and equipment costs for the existing activities.

- The Building Business Line had negative net earnings of \$97,147 at FY 2003 mid-year due to the timing of recognized costs associated with the Department's building construction/improvement program. The business has project costs that were reflected as earnings in the prior fiscal year, so first half FY 2003 results reflect a substantive break-even position and do not imply the need for pricing policy changes.
- The Telephone Business Line had negative net earnings of \$111,803 at FY 2003 mid-year resulting from additional cost for trunk lines at headquarters. These added costs are reflected in the price increase for next year, but they can be absorbed within the current year and will have no material effect on FY 2003 performance.
- The Network Business Line had net earnings of \$249,338 at FY 2003 mid-year due to cost reductions to DOE-Net. This issue is currently being considered by the board, which will make decisions regarding pricing policy changes and the financing of capital purchases.
- The CHRIS Business Line had net earnings of \$126,916, at FY 2003 mid-year due to the timing of costs related to equipment and equipment maintenance. These expenses are expected later in the fiscal year.
- The On-Line Learning Center Business Line had net earnings of \$60,061 at FY 2003 mid-year related to subscriptions that have not been costed.
- Both earnings and expenses reported above have been adjusted from the DISCAS accounting to present the Fund's net earnings with the most accurate and latest information. Mail, Payroll, CHRIS, and Online Learning earnings have been adjusted down to reflect annual collections that should be reported in 25% increments each quarter. Telephone results have been adjusted to match six months of costs with six months of billing based on usage billed FY 2002 but expensed in October/November. Printing and Graphics earnings are adjusted due to under billing in the first half. Customers will be billed in the second half to compensate.

These adjustments are justified during interim reporting in the fiscal year, because our emphasis is on providing the Board with the most accurate reporting and estimates of annual performance. At year-end, the Fund has more time to estimate accruals, which allows business managers to analyze costs in greater detail. For that reason, we rely on DISCAS data alone for the Annual Report.

II. Relation of Customer Payments to Anticipated Customer Billings

- Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund. The length of the continuing resolution affected collections to-date in FY 2003.
- By March, we had collected \$78.6 million (91%) of the estimated \$86.5 million in FY 2003 annual revenues (Table II). These amounts can be compared to first half collections of \$80.7 million (95%) of the estimated \$85.2 million in FY 2002 and \$84.5 million in FY 2001. In the interim, before release of this report, collections have increased to \$85.4 million.

WORKING CAPITAL FUND			
FY 2003 First half Business Results (in Millions)			
TABLE II			
<u>Business Line</u>	Advances as of First Half ²	Anticipated Full Year	% Collected
Supplies	\$ 3.4	\$2.4	142%
Mail	\$ 3.3	\$2.6	127%
Copying	\$ 2.9	\$2.2	132%
Printing/Graphics	\$ 3.1	\$2.4	129%
Building Occupancy	\$ 42.2	\$58.4	72%
Telephones	\$ 8.2	\$6.6	124%
Desktop	\$ 1.3	\$1.2	108%
Network	\$ 4.9	\$6.2	79%
Contract Closeout	\$ 0.8	\$0.8	100%
Payroll Processing	\$ 4.8	\$1.4	343%
CHRIS	\$ 2.6	\$2.2	118%
On-Line Learn. Ctr.	\$ 0.5	\$0.3	167%
TOTAL	\$ 78.0	\$ 86.5	90%

² Customer advances include prior year customer advances. (see Table III).

III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines.
- As shown in Table III, funds available exceeded obligations by an estimated \$36.4 million by the end of the first half. The rate of obligation is behind annualized estimates due to the length of the continuing resolution at the beginning of FY 2003.

WORKING CAPITAL FUND					
FY 2003 First half Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	Unobligated Balance ³ 10/02	Current Year Customer Advances	Total available for obligation	First half Obligations	Advances Remaining to be Obligated
Supplies	\$1.8	\$1.6	\$ 3.4	\$1.5	\$1.9
Mail	\$0.4	\$2.9	\$ 3.3	\$1.0	\$2.3
Copying	\$0.8	\$2.1	\$ 2.9	\$1.4	\$1.5
Printing/Graphics	\$0.6	\$2.5	\$ 3.1	\$1.4	\$1.7
Building Occupancy	\$3.3	\$38.9	\$ 42.2	\$30.0	\$12.2
Telephones	\$3.2	\$5.0	\$ 8.2	\$2.0	\$6.2
Desktop	\$0.3	\$1.0	\$ 1.3	\$0.6	\$0.7
Network	\$2.0	\$2.9	\$ 4.9	\$2.5	\$2.4
Contract Closeout	\$0.3	\$0.6	\$ 0.8	\$0.2	\$0.6
Payroll Processing	\$3.7	\$1.1	\$ 4.8	\$0.4	\$4.4
Chris	\$0.8	\$1.8	\$ 2.6	\$0.7	\$1.9
On-Line Learn. Ctr.	\$0.1	\$0.4	\$ 0.5	\$0.1	\$0.4
TOTAL	\$17.3	\$60.7	\$ 78.0	\$41.8	\$36.2

³ The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year. Unearned balances of \$12.3 million represent a liability of the fund and like other unearned customer advances, are uncommitted and can be returned to the customer at their request. There are also \$0.3 million of unearned advances, which are not allocated to businesses.

IV. Changes in Budget Estimates by Business Line and Customer

- The \$2.3 million increase in the May 2002 estimate was the result of GSA rent increases (\$2.0 million) and increased demand for supplies. December 2002 estimates increased further as a result of increased mail security offset by phone savings. April 2003 estimates reflect lower spending in supplies (\$0.9 M) and printing (\$0.6 M) and a price reduction in payroll (\$1.7M). On a net basis, our current estimates are substantially in line with the original FY 2003 budget guidance.

FY 2003 Budget Estimates for WCF Businesses		
Date	Process	FY 2003 Billing Estimate (\$Millions)
May 2001	FY 2003 Corporate Review	\$86.9
December 2001	FY 2003 Congressional Budget	\$87.1
May 2002	FY 2004 Corporate Review	\$89.4
December 2002	FY 2004 Congressional Budget	\$89.6
April 2003	March WCF Bill	\$86.5

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

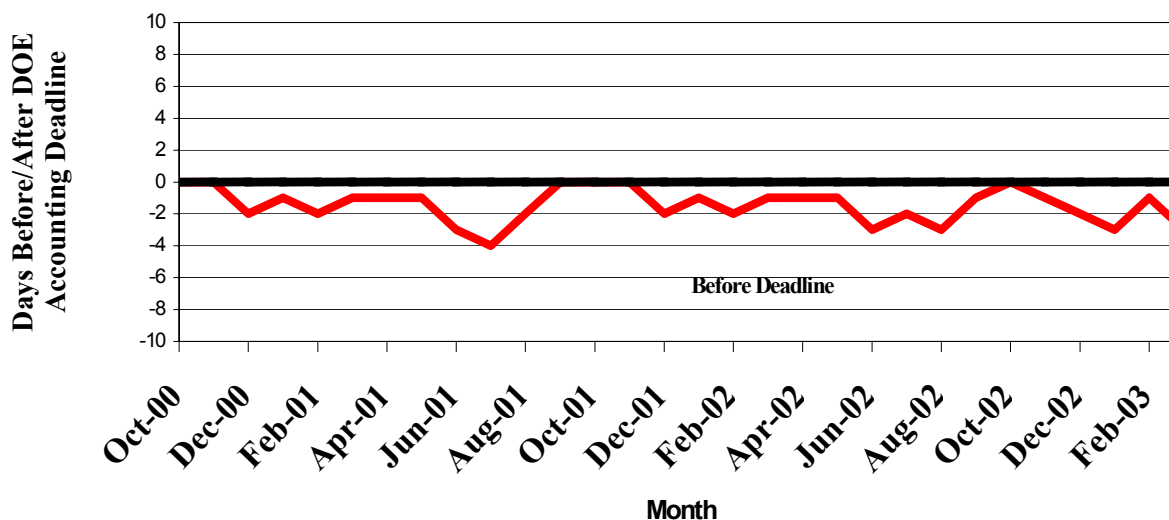
- The Fund Manager has organized a Financial Policy Working Group to review the financial policies of the fund including proper use of fund balances. It is possible that this group will recommend changes. Payroll outsourcing should result in cost savings that have yet to be determined, and the Board has approved the proposed FY 2004 increase in Telephone infrastructure charges. Changes in Network infrastructure and DOEnet are due for Board vote in May.

VI. Financial Management Systems Progress

Working Capital Fund Billing System

- The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS by the fifth working day of the month (beginning Feb 2003, the fourth working day), this allows the Fund staff, with the cooperation of CFO officials, to have the billings entered into DISCAS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent. Process improvements that would result in timesaving are no longer meaningful.
- The Fund Manager recently completed upgrading the billing system to automate and enhance customer reporting. It is our assessment that the system is stable and has the flexibility to accept changes as needed. We intend to solicit ideas from our customer and business working groups for the next generation of enhancements. The complete assessment can be located on our web site at www.ma.mbe.doe.gov/wcf under Billing System Assessment.

WCF Billing Performance



VII. Performance Review

- Business Lines report that they are accomplishing goals and performance objectives for FY 2003 consistent with annual projections in recent five-year plans. We have every expectation to meet performance standards at the end of FY 2003.